

Project On Government Oversight

Exposing Corruption Exploring Solutions www.POGO.org

May 13, 2010

United States Senate
Washington, DC 20510

Dear Senator:

The Project On Government Oversight (POGO) is an independent nonprofit that investigates and exposes corruption and other misconduct in order to achieve a more effective, accountable, open, and ethical federal government. To that end, we are writing in support of an amendment introduced by Senator Charles Grassley and co-sponsored by Senator Claire McCaskill that would improve the Restoring American Financial Stability Act (S. 3217) by strengthening the independence of certain agency-appointed Inspectors General (IGs), including those that serve as watchdogs within many of our nation's financial regulatory agencies. Especially in the aftermath of the recent financial crisis, the work of IGs is absolutely essential to ensuring that our financial regulatory agencies work in the public's best interest, and it is imperative that these IGs have the authority to do their job without political interference.

The Grassley amendment will fix a provision in the Restoring American Financial Stability Act, section 989B, that would convert the IGs at the Securities and Exchange Commission (SEC), the Federal Reserve System, the Commodity Futures Trading Commission (CFTC), the National Credit Union Administration (NCUA), the Pension Benefit Guaranty Corporation (PBGC), and the new Bureau of Consumer Financial Protection to be presidential appointments. These watchdogs are currently classified as designated federal entity (DFE) IGs, and are appointed by their agency heads.

Many, including POGO, have raised concerns that DFE IGs are not truly independent because they are hired and fired by the agencies they oversee, and are required to report to an individual who is designated as the agency head by the Office of Management and Budget (OMB). Supporters of Section 989B believe that these IGs would be able to operate with greater independence if they were instead appointed by the President and confirmed by the Senate.

As I testified before Congress last year, however, POGO has come to appreciate that there is some logic to the DFE structure, especially for those agencies that are headed by a multi-person board or commission rather than an

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individual. Some DFE IGs are actually protected by the fact that it takes more than one person to remove them from office.¹

The Grassley amendment has a better solution for strengthening the independence of DFE IGs. Instead of making them presidential appointments, the Grassley amendment states that all DFE IGs—including the watchdogs at the financial regulatory agencies listed above—will report to the entire board or commission at their agencies. Furthermore, the amendment requires a 2/3 vote of the entire board or commission in order to remove a DFE IG, making it impossible for a single agency head to unilaterally remove an IG for political reasons.

And if Congress is interested in further strengthening the authority of the DFE IGs, my testimony provides additional suggestions for achieving this goal. For instance, these IGs should have the capacity to subpoena both documents and testimony from the entities regulated by their agencies, and to make budget, hiring, and promotion decisions without micromanaging from their agencies.

We strongly urge you to support the Grassley amendment in order to strengthen the independence of the DFE IGs, including those operating within our financial regulatory system. Thank you in advance for your leadership on this important matter. If you have any questions or need further information, please contact me at (202) 347-1122.

Sincerely,

A handwritten signature in cursive script that reads "Danielle Brian".

Danielle Brian
Executive Director

¹ Testimony of Danielle Brian before the House Oversight and Government Reform Committee's Government Management, Organization, and Procurement Subcommittee on "The Roles and Responsibilities of Inspectors General within Financial Regulatory Agencies," March 25, 2009. <http://www.pogo.org/pogo-files/testimony/government-oversight/go-igi-20090325.html> (Downloaded May 12, 2010)